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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

NFAC-3127-81
22 May 1981

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH : Deputy Director for National Foreign Assessment
National Intelligence Officer for Warning

FROM : [REDACTED]
Acting National Intelligence Officer for
Western Europe

SUBJECT : Monthly Warning Assessment: Western Europe

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Spain

1. We believe that the possibility of intervention by the military in Spain's governing process is increasing, even if the time and precise form such action may take are difficult to predict. Concern among military officers and within right-wing political circles over continuing terrorism, government ineffectiveness, and pressures for greater regional autonomy is growing. The prestige of the king, meanwhile, has weakened. The critical questions are the degree of unity within the military and the possibility of open splits within the ruling Union of the Democratic Center (UCD). [REDACTED]

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[REDACTED] Factionalism within the UCD--quelled briefly following the February coup attempt--is resurfacing and is likely to be exacerbated by insistent political, social, and economic questions on which fundamental differences persist.

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2. In the short run, another coup attempt is less likely than pressures on the government to bolster existing institutions through "reorganization" and greater participation by the military. Should the government find such steps politically unacceptable or, in any case, prove unable to

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cope with terrorism and other problems, the chances will increase rapidly for more direct military action.

France

3. Immediate concern about France focuses on the short-term effects of Mitterrand's election on the economy. Thus far, the worst has been avoided. Pressure on the franc has been eased by substantial intervention, and a precipitous decline in the stock market has been arrested, for the moment at least. The Bank of France has ample reserves to meet immediate speculative attacks against the franc and the Bundesbank has been cooperative. Domestic interest rates are at record highs. Continued intense speculative pressures, however, could test the new government's will to defend the currency; especially before the legislative elections next month, however, the government will not want to yield, fearing the political impact of a devaluation. High interest rates will have a depressive effect on economic activity--even if somewhat delayed--and devaluation, possibly in a series of small steps, seems a good possibility later this year. The longer-term economic effects of Mitterrand's programs will probably be inflationary, but the full extent of government measures--including nationalizations--cannot be known until after a definitive administration is installed in the wake of the legislative elections. The French Socialist leadership seems aware that close cooperation with West Germany in the economic area is essential. If Bonn's help is sought, however, the price almost certainly will be a moderation of Socialist programs.

4. The French Communist Party appears to be in considerable disarray--if not indeed in a state of shock--following its serious losses in the presidential election. Even should the Communists recoup somewhat in the June parliamentary elections, it is not clear what strategy they intend to pursue vis-a-vis the new government. Some elements argue for taking whatever posts they can get; others, for aloofness that would make the party an eventual rallying point for opposition to a Socialist or Socialist-cum-centrist government. The election results themselves will probably determine which line the party will follow, and will also influence Mitterrand's tactics towards the Communists. It is doubtless Mitterrand's hope that he will be able to minimize Communist participation in the government and still be able to count on Communist votes in the Assembly for programs that will be moderate but still popular enough to make Communist opposition politically hazardous.

5. On the foreign policy front, most signals from Paris indicate an intention to temper Socialist principles with "reality." Recognition by key figures of France's continued dependence on imported oil and foreign markets, for example, is clear and tends to argue for more continuity than

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change in French policies toward the Middle East and Africa. Professions of loyalty to the Atlantic Alliance are accompanied by an apparent intention to propose a "revision" of NATO. Lacking any precision thus far, such proposals may, however, involve a search for "clarification" of the responsibilities of individual Allies both within and outside of NATO areas, perhaps distinguishing more sharply between purely military affairs and broader political concerns.

Turkey

6. The warning meeting was used to alert the Intelligence Community to the results of a preliminary analysis of revised figures for Turkey's 1980 and first-quarter 1981 trade account which just became available. This analysis indicated the possibility--arising from a probably continuing heavy import demand--of a serious foreign exchange crunch later this year. If first-quarter 1981 trends continue throughout the year, Turkey's current account deficit for 1981 could reach \$11 billion. The earlier estimate was ca. \$8 billion. The higher figure could lead to greater demands for aid or requests for renegotiation of Turkey's debt.

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